

Planning increases the probability that the business will function well and prosper in an organized and rational direction.



Chapter 2: Business Planning Process

The importance of planning a business operation should not be underestimated. It can make the difference between success and failure. Proper planning increases the probability that the business will function well and prosper in an organized and rational direction.

The business plan is a personal document that can serve to:

- Assist in determining the feasibility and desirability of pursuing the steps necessary to start a business.
- Assist in raising capital from outside investors.
- Offer an opportunity to coordinate personal and business objectives.
- Assist in management control by promoting better decision-making and enhancing business efficiency.
- Form the basis of a more detailed operational plan.

According to the U.S. Small Business Administration (U.S. SBA), the process of starting a small business includes carefully researching and answering these basic questions:

- What niche will my business fill?
- What services or products will I sell?
- Is my idea practical, and will it fill a need?
- Who is my competition?
- What is my business's advantage over existing firms?
- Can I deliver a better quality service?
- Can I create a demand for my business?

Once you've determined that your idea is feasible, answer these questions:

- What skills and experience do I bring to the business?
- What will be my legal structure?
- How will my company's business records be maintained?
- What insurance coverage will I need?
- What equipment or supplies will I need?
- How will I compensate myself?

- What are my resources?
- What financing will I need?
- Where will my business be located?
- What will I name my business?

If you are starting a home-based business, you will want to answer these additional questions:

- Does my home have the space for a business?
- Can I successfully run the business from my home?
- Can I deal with the isolation of working from home?

You should do as much of the work as possible on your plan. If you have a professionally prepared plan and have little involvement in it, you may not understand it and it could be of little value to you. This is not meant to imply that seeking assistance in plan preparation is not necessary. If this is your first time in preparing a plan, you may wish to seek assistance from a certified public accountant or the U.S. SBA. The U.S. SBA sponsors a volunteer organization made up of successful former business owners and operators, called the Service Corps of Retired Executives (SCORE), whose aim is to assist potential and existing business owners with business-related problems or situations encountered in their operations. There are many accounting and business texts available through bookstores and libraries. Commercial bank loan officers may assist you or refer you to another organization that may provide the necessary assistance. Local economic developers may also be a source of aid. If you prepare the plan yourself, answer only the following sections in the suggested outline that pertain to you. Keep your descriptions short. Take your time and you will emerge with a plan that enhances the opportunity to be successful in your business.

Business Plan and Suggested Outline

Cover Sheet

Include the name of the business, names of owners or owners-to-be, the address, telephone number, and website of the business, if available. Give a description of the area and building to be rented, leased, or owned. If the building is rented or leased, state from whom and under what conditions. State the size (square footage) of the building. Describe the type of access to the building (major roads, highways, walking, parking, etc.) State the operating business hours.

Executive Summary

Complete this section after all the other sections of the business plan have been completed. Include in this summary:

- Your company name.

- Principal products or services of the business.
- The unique features of the products or services.
- Market, market share, profit margins, and time frame for achieving them.
- The reason for the business.
- Product or service distribution.
- The current stage of the business (start-up or existing business) and financial results (evaluation of the prospects or past performance).

Financial investors will frequently skip over parts of the plan that are not of interest to them. However, they will always read the executive summary.

Table of Contents

- I. The Business
 - A. Description of the business, including the unique features of the products and services
 - B. Company's goals, being as specific as possible
 - C. Historical achievement and strengths
 - D. Past problems and current weaknesses
 - E. Competition—competitive advantages over other producers
 - F. Statement of financial need and expected benefit from receiving borrowed funds
- II. Management
 - A. Organizational chart
 - B. Key individuals
 - 1. Personnel résumés
 - 2. Present salaries
 - 3. Planned staff additions
 - C. Other employees or labor market conditions
 - 1. Number of employees at year-end, total payroll expenses
 - 2. Method of compensation
 - 3. Planned staff additions
 - D. Company's decision-making and management philosophy
- III. Market Analysis/Marketing
 - A. Targeted customer groups
 - 1. Principal customers
 - 2. Location
 - 3. Product
 - 4. Percent of company's sales
 - 5. Volume
 - 6. Duration and condition of contracts in place

- B. Product or service qualities the company will emphasize
- C. Location advantages and disadvantages—describe the competition
- D. Distribution channels
 - 1. Sales personnel
 - a. Number needed to achieve projected sales
 - b. Salaried or commissioned
 - 2. Brokers and/or agents
 - 3. Retailers
- E. Service and warranty policies
 - 1. Authorized service outlets
 - a. Number to be established
 - b. Location
 - 2. Use of company personnel
- F. Product or service pricing method
- G. Credit
 - 1. Accounts receivable sold, discounted, or pledged
 - 2. Conditions for discount
- H. Advertising and/or promotions
 - 1. Budget
 - 2. Media

IV. Financial Data

- A. Reports
 - 1. Annual financial statement for the past three years (audited quality, if available), including balance sheets, profit and loss statements, and statements of sources and applications of funds, if applicable
 - 2. Current financial reports, if applicable
 - a. Balance sheet
 - b. Income statement
 - c. Accounts receivable
 - d. Accounts payable
 - e. Debt schedule
 - f. Reconciliation of net worth
 - 3. Tax returns for the last three years, if applicable
- B. Projected financial statements (applicable for existing and new businesses) for the next three years—monthly for the first year and annually for the second and third years
 - 1. Operating or income statements
 - a. Sales
 - b. Expenses
 - c. Profit

2. Balance sheet
 3. Reconciliation of net worth
 4. Cash flow
 5. Break-even analysis
 6. Notes of explanation or footnotes
- C. Other statements, if applicable
1. Capital equipment list
 2. Manufacturing/shipping plan
 3. Seasonal business—explain its cycle and relate it to the company's financial needs
- D. Sources and applications of funding
1. Description of the project to be funded
 - a. Description of cash requirements
 - b. Amount to be raised from debt and amount from stock
 - c. Amount and terms you are seeking
 2. Key financial advisors
 - a. Auditor—name, address
 - b. Legal counsel—name, address
 - c. Banker—name, location, contact officer familiar with account

Business Plan Forms

For a new business owner, and perhaps for existing businesses, you should determine what you will need as a minimum monthly draw from the business.

A sample expense form of monthly personal cost of living, a balance sheet, projected income statement, and projected cash flow sheet are for guidance purposes only. These forms can be found at the back of this directory.

SWOT Analysis

A SWOT analysis will enable you to identify the Strengths, Weaknesses, Opportunities, and Threats that affect your business. Performing a SWOT analysis will allow you to examine your business and its potential for success, both internally and externally. Usually these factors are recorded in a matrix so each category may be analyzed with regard to the others. A sample SWOT analysis is available at the back of this directory.

